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# **Regime Change in 1950s Ireland: The New Export-Oriented Foreign Investment Strategy\***

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## **ABSTRACT**

The new export-oriented foreign direct investment (FDI) regime of the 1950s was an inter-party government initiative that facilitated the later Whitaker and Lemass-led dismantling of protectionist trade barriers. The potential opposition of protectionist-era industry to the new regime was defused by confining the new tax relief to profits derived solely from exports, by allocating new industrial grants only to firms that 'would not compete in the home market with existing firms', and by retaining the Control of Manufactures Acts of the 1930s that imposed restrictions on foreign ownership. The fact that the US had overtaken the UK as the major global source of FDI made it easier to secure Fianna Fáil support. US firms were particularly interested in access to EEC markets however, which was not within Ireland's gift. The export processing zone at Shannon, which might be seen as Lemass's response to the inter-party initiatives, proved to be of immediate appeal to them. US firms would come to predominate in the non-Shannon region only after Ireland's entry to the EEC.

**KEYWORDS:** Foreign Direct Investment, 1950s Ireland, Lemass, Costello, Norton, Inter-Party Government, Outward Orientation.

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This paper is dedicated to the memory of Brendan Walsh, whose chance remark to Frank Barry one evening on Nassau Street – that Ireland's openness to America saved the country from intellectual isolation, even when it appeared to desire it – proved an important stimulus to the ideas presented here.

## Introduction

Import-substituting industrialisation tends to run into balance-of-payments problems once the ‘easy’ first stage – entailing the replacement of non-durable consumer goods imports – has been completed.<sup>1</sup> Managing the shift towards outward orientation can be hugely challenging however because of the vested interests that grow up around protected industries.

The difficulties of managing the transition are apparent from the experiences of developing economies that found themselves in crisis in recent decades, as Ireland had done in the 1950s. Trade liberalisation was a key component of the conditionality attached to the assistance offered by the World Bank and IMF in these circumstances. With little ‘domestic ownership’ of the liberalisation process, developing-economy reforms tended to be half-hearted and were frequently reversed once the immediate crisis had passed.<sup>2</sup>

The Irish transition, by contrast, was managed in such a way that the veto of entrenched interests was avoided and the U-turn was effected without serious damage to policy-makers’ credibility. Indeed, Seán Lemass – the architect of protectionism – became Taoiseach the year following the publication of the government white paper that heralded the onset of trade liberalisation. Fianna Fáil would remain in power uninterrupted until 1973.

A recent paper by Dani Rodrik – *When Ideas Trump Interests* – offers a useful framework for analysing such outcomes. ‘New ideas about what can be done’, he suggests, ‘can unlock what otherwise might seem like the iron grip of vested interests... Just as we think of technological ideas as those that relax resource constraints, we can think of political ideas as those that relax political constraints, enabling those in power to make themselves (and possibly the rest of society) better off without undermining their political power’.<sup>3</sup>

External context was crucial of course. Post-war pressures drew other small protectionist states into the Western European integration process at around the same time as Ireland: Portugal was a founder-member of the European Free Trade Association (EFTA) launched by the UK in 1960 and Finland signed a free trade agreement with EFTA in 1961. Ireland’s outward re-orientation followed a different path. The new foreign investment regime of the 1950s preceded – and, by providing an alternative source of job creation, would facilitate – the trade liberalisation of the following decades.

Our focus here is solely on the first stage of this two-stage process. The new FDI regime was initiated by the inter-party governments of the era: the Industrial Development Authority (IDA) was established by the first Costello government in 1949 while the crucial financial incentives to support the new regime were introduced by the second inter-party government in 1956. Changing the FDI regime was an easier first step than liberalising trade. Fianna Fáil mistrust of external control applied particularly to British firms; a relaxation of attitudes was to be expected when US firms began to invest heavily in post-war Europe. The new Irish

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<sup>1</sup> B. Balassa, ‘The Process of Industrial Development and Alternative Development Strategies’, *World Bank Staff Working Paper* 438 (1980).

<sup>2</sup> D. Rodrik ‘Why is Trade Reform so Difficult in Africa?’, *Journal of African Economies*, 7: 1, (1998), 10-36 ; J. Boughton and A. Mourmouras, ‘Whose Programme is it?: Policy Ownership and Conditional Lending’, in D. Vines and C. Gilbert (eds.) *The IMF and its Critics: Reform of Global Financial Architecture*, (Cambridge, 2004), pps. 225-254.

<sup>3</sup> D. Rodrik, ‘When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations’, *Journal of Economic Perspectives*, 28, 1, 189-208.

regime was not immediately successful in attracting US firms however, as Lemass's Shannon export processing zone (EPZ) initiative of a few years later would prove to be.

Ó Gráda and O'Rourke conclude that 'policy-makers had simply been slow to learn that protection was mistaken'.<sup>4</sup> Where, though, did the new ideas come from? Adopting Rodrik's schema we analyse both the demand-side and the supply-side of the market for new policy ideas. The demand was triggered by crises – the dollar crisis of the immediate post-war era and the later balance-of-payment crisis of the mid-1950s – and by the renewed political competition of the period. The supply of new ideas was stimulated by institutional developments within the bureaucracy and by the foreign policy interests of the United States.

The next section of the paper shows that Irish mistrust of FDI up to the 1950s primarily related to British firms. Attitudes would change when the US overtook the UK as the major global source of FDI in the post-war period. The following sections chart the developments that impacted on the market for new policy ideas in Ireland up to the mid-1950s and the final sections focus on the slightly later Shannon initiative. The paper closes with some concluding comments.

## **2. Attitudes towards Foreign Direct Investment Prior to the 1950s**

There were relatively few externally-controlled manufacturing firms in the 26 counties at independence. By far the largest was Henry Ford & Son, which commenced tractor production in Cork City in 1919. The establishment of the Free State and the moderate protectionism of the Cumann na nGaedheal governments led to some large British firms establishing in Ireland to avoid tariffs and excise taxes. Seán Lemass – who would serve as Minister for Industry and Commerce in most Fianna Fáil administrations from 1932 until 1959 – stated prior to taking office in 1932 that 'unless we can ensure that the benefits derived from the imposition of protection are reserved for [Irish manufacturers] it is a dangerous policy to embark on'.<sup>5</sup> Legislation to control foreign ownership was introduced under the Control of Manufactures Acts (CMA) of 1932 and 1934. Licences granted under the Acts could be subject to onerous restrictions on location, mandated production, domestic content requirements etc.

This two-pronged economic strategy, of trade protection and foreign-ownership restrictions, would come to typify the stance of many later post-colonial economies. In many such cases however, as in Ireland, the ownership restrictions were not strictly enforced as governments came to realise the value of the employment, capital and expertise that tariff-jumping enterprises could provide.<sup>6</sup> The Acts nevertheless gave the government a degree of leverage over the activities of foreign firms and were not fully repealed even when export-oriented FDI began to be actively pursued in the mid-1950s.

The restrictions on foreign ownership were enacted specifically to keep *British* firms at bay. As Lemass explained in the Dáil in 1948, 'our particular concern at that time was the prospect that the imposition of protective duties here would lead to industrial development

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<sup>4</sup> C. Ó Gráda and K. O'Rourke, 'Irish Economic Growth, 1945-1988', in N. Crafts and G. Toniolo (eds.), *Economic Growth in Europe since 1945*, (Cambridge, 1996), p. 414.

<sup>5</sup> M. E. Daly, 'An Irish Ireland for Business?: The Control of Manufactures Acts, 1932 and 1934', *Irish Historical Studies*, xxiv: 94, (1984), 246-272.

<sup>6</sup> F. Barry, L. Barry and A. Menton, 'Tariff-Jumping Foreign Direct Investment in Protectionist-Era Ireland', *Economic History Review*, 69: 4, 1285-1308.

solely in the form of branch factories of British firms'.<sup>7</sup> This was an issue that he had first raised in 1929 when he warned that they would 'undoubtedly render it difficult to adopt measures designed to protect national interests when those interests are in conflict with their own'.<sup>8</sup>

These sentiments towards British firms contrast with the attitudes expressed towards Ford. Since Henry Ford's ancestors had come from Ireland, the company was regarded in many quarters as quasi-Irish.<sup>9</sup> In the 1929 document cited above, Lemass exempted Ford from his criticism that much of the foreign capital operating in Ireland was of little value to the nation.<sup>10</sup> Curran notes that the Fianna Fáil newspaper, the *Irish Press*, 'consistently promoted the Ford enterprise in Ireland'.<sup>11</sup> A Canadian entrepreneur too reported in 1935 that he had found de Valera 'cordial to the project of bringing Canadian capital' to the country.<sup>12</sup>

Irish governments, furthermore, were much more open to advice from the US than from the UK on industrial development policy. The first major external report – the 'Stacy May' report of 1952 – was commissioned from New York firm IBEC Technical Services. Though it was paid for from Marshall Aid funds, the following three reports – the confidential 1960 report of New York-based Business International, the 1967 report of Massachusetts firm Arthur D. Little, and the 1982 review of industrial policy by Ira Magaziner's Telesis Group – were also all commissioned from US firms.<sup>13</sup>

As O'Halpin notes, 'new states generally sought to bypass old masters when seeking technical guidance on industrialisation and development'.<sup>14</sup> Ireland's more benign attitude towards the US was an influential component in the politics of the change in FDI strategy in the 1950s.

### 3. Post-War Europe and the Outward Reorientation of the Economy

By 1948, Éamon de Valera had been taoiseach for sixteen years, making him one of the longest serving heads of government in Europe. Unlike Stalin, Franco and Salazar, however, de Valera was reliant on a democratic mandate. Postwar austerity saw Fianna Fáil displaced from power by coalition governments under the leadership of John A. Costello in 1948 and again in 1954.

This resurgence of electoral competition combined with economic crises to stimulate the search for new policy ideas. Though Lemass would later admit only that 'it was not until our second period in opposition that we really got down to...preparing our minds for a

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<sup>7</sup> Dáil Éireann - Volume 112 - 21 July, 1948; Committee on Finance. - Vote 55—Industry and Commerce.

<sup>8</sup> Cited in P. Bew and H. Patterson, *Seán Lemass and the Making of Modern Ireland 1945–66*, (Dublin, 1982), p. 3.

<sup>9</sup> T. Grimes, *Starting Ireland On The Road To Industry: Henry Ford In Cork*, PhD thesis, National University of Ireland, Maynooth (2008), p. 81. Henry Ford & Son of Cork had initially been wholly owned by the Ford family. It became part of the Ford Motor Company of Detroit in 1920: *ibid*, pps. 92, 125.

<sup>10</sup> Bew and Patterson, *Seán Lemass*, p. 2.

<sup>11</sup> C. Curran, *The Irish Press and Populism in Ireland*, PhD thesis, Dublin City University (1994), p. 213.

<sup>12</sup> E. O'Halpin, 'Ireland Looking Outwards, 1880-2016', in T. Bartlett (ed.), *Cambridge History of Ireland Volume IV: 1880-2016* (Cambridge, forthcoming)

<sup>13</sup> British consultancy firms were hired however to advise on regional policy, as in the cases of the Urwick Orr report of 1957 and the Buchanan Report of 1969. US consultants might not have been expected to understand the intensity of localist concerns in Ireland.

<sup>14</sup> O'Halpin, 'Looking Outwards'.

comprehensive approach to [the post-war economic problems of the country]', McCarthy convincingly portrays how policymakers of all parties inched each other towards the new economic strategies of the 1950s.<sup>15</sup>

Among the economic pressures faced by the first inter-party government of 1948-1951 was the prevailing dollar shortage. While it would take the balance-of-payments crisis of 1955-56, in the words of Honohan and Ó Gráda, to force a "comprehensive and epochal reassessment of economic policy, shifting the emphasis to an outward-looking view", the dollar shortage too forced a reappraisal of Ireland's trading position.<sup>16</sup>

The share of Irish imports coming from the US had doubled from 11 percent in 1938 to 22 percent in 1947. The limiting of sterling convertibility in August of that year meant that payments to the dollar area could no longer be made through sterling. Imports of wheat, maize, motor vehicle parts and tobacco were difficult to source from outside the dollar area however, and the dollar shortage was only partially alleviated by Marshall Aid inflows.<sup>17</sup> The first inter-party government responded by setting up the Dollar Exports Advisory Committee (DEAC) in 1950.

The first report of the DEAC led to the establishment of the Irish Export Board in October 1950 (incorporated as Córas Tráchtála Teoranta in 1951). Its second report, issued in August 1950, recommended the granting of a tax concession on export profits generating dollar earnings for the country, though this proposal was rejected in the face of vigorous opposition from the Department of Finance and the Revenue Commissioners.<sup>18</sup>

The inter-party government had also, in 1949, established the Industrial Development Authority (IDA). It had given it the mandate to oversee tariff policy which had formerly been within the remit of the Department of Industry and Commerce. Fine Gael, the majority party in the new government, wanted to see the cost implications of protection and the consequences for downstream industries assessed more carefully, and viewed Industry and Commerce as overly mired in protectionist thinking. Fianna Fáil was strongly opposed to the new body and, upon returning to office in 1951, brought these functions back into the department.

Though the Department of Industry and Commerce had also been opposed to the establishment of the IDA, its Secretary – John Leydon – rapidly came to appreciate the value of having his department's voice strengthened by the support of outside agencies. The IDA, the DEAC and Córas Tráchtála would all support the department's proposals for export profits tax relief (or 'export sales relief') – the origin of Ireland's low corporation tax regime.

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<sup>15</sup> Lemass quote from Bew and Patterson, *Seán Lemass*, p. 86; J. McCarthy (ed.), *Planning Ireland's Future: the Legacy of T.K. Whitaker*, (Dublin, 1990).

<sup>16</sup> P. Honohan and C. Ó Gráda, 'The Irish Macroeconomic Crisis of 1955-56: How Much was Due to Monetary Policy?', *Irish Economic and Social History*, 24: 52-80 (1998).

<sup>17</sup> Fanning, *Department of Finance*, pps. 391, 428.

<sup>18</sup> Details of the archival and other sources drawn upon and not referenced here are available in F. Barry, 'Foreign Investment and the Politics of Export Profits Tax Relief 1956', *Irish Economic and Social History*, xxxviii, (2011), 54-73, and F. Barry and M. Ó Fathartaigh, 'The Industrial Development Authority, 1949-58: Establishment, Evolution and Expansion of Influence', *Irish Historical Studies*, 39: 155, (2015), 460-478. The dollar shortage became less pressing as European and global export industries recovered. The renewed emphasis on exports remained however. The promotional activities of Córas Tráchtála were extended to non-dollar areas in 1954 and calls for export tax concessions widened to include non-dollar earnings.

The measure was eventually introduced by the second inter-party government in 1956, in the face of continuing opposition from the Department of Finance.

The IDA had also been given the mandate to initiate proposals for the development of new industries. By 1955, this had largely come to mean new export-oriented foreign industries. A change in FDI strategy would face far fewer roadblocks than liberalising trade. Between 1938 and 1950 the US overtook the UK as the major global source of outward FDI, and US industrial investments in Europe ratcheted sharply upwards in the 1950s.<sup>19</sup> This would make it easier for Fianna Fáil to accept the policy shift, as highlighted by Horgan:

The shift in policy may have been motivated less by any objective view about the trustworthiness or otherwise of British capitalists and more by a recognition that if traditional policy was to be altered, Fianna Fáil's traditional value system was more politically reconcilable with an opening to the west than with one to the east.<sup>20</sup>

The possibility of attracting new US investment was recognised already in Ireland by 1948. From the opposition benches Lemass asked Daniel Morrissey, the new Minister for Industry and Commerce, about reports that the US government's European Recovery Programme planned to encourage US business investments in Europe. In Lemass's words, suspicions pertaining to British FDI 'do not necessarily apply to capital from other countries', and he and Morrissey agreed that American investments were to be encouraged.<sup>21</sup>

While the early literature on the FDI regime change concentrated on exploring developments within Ireland, a number of recent contributions have drawn attention to the role of the US as supplier and promoter of many of the new policy ideas.<sup>22</sup> US foreign policy interests clearly played a significant part in shaping the agenda in Ireland – as elsewhere in Western Europe – though writers such as O'Hearn and Jacobsen arguably go too far in writing domestic agency and 'ownership' out of the picture.<sup>23</sup>

Paying attention to both the demand and supply sides of the market for ideas allows a more nuanced picture to emerge. Irish and American interests were not perfectly aligned. The US authorities believed that 'Ireland's main contribution to European recovery will take place through the production of more food for export'.<sup>24</sup> Criticism from within Ireland led to a tiny

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<sup>19</sup> M. J. Twomey, *A Century of Foreign Investment in the Third World* (New York, 2000), p. 33; A. D. Chandler Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, 1990), tables 14 and 15).

<sup>20</sup> J. Horgan, *Seán Lemass: The Enigmatic Patriot*, (Dublin, 1997), p. 146.

<sup>21</sup> Dáil Éireann - Volume 112 - 21 July, 1948; Committee on Finance. - Vote 55—Industry and Commerce.

<sup>22</sup> See e.g. D. O'Hearn, 'The Road from Import-Substituting to Export-Led Industrialization in Ireland: Who Mixed The Asphalt, Who Drove The Machinery, and Who Kept Making Them Change Directions?' *Politics and Society*, xviii, no. 1 (1990), pp 1–38; J. K. Jacobsen, *Chasing Progress in the Irish Republic* (Cambridge, 1994); P. Murray, *Facilitating the Future: US Aid, European Integration and Irish Industrial Viability, 1948-73*, (Dublin, 2009); P. Neveling, 'Export Processing Zones, Special Economic Zones and the Long March of Capitalist Development Policies during the Cold War', in L. James and E. Leake (eds.), *Decolonization and the Cold War: Negotiating Independence*, (London, 2015), pps. 63-84; A. Groutel "American Janus-Faced Economic Diplomacy towards Ireland in the Mid-1950", *Irish Economic and Social History*, (2016), pps. 1-18.

<sup>23</sup> O'Hearn asserts, for example, that ultimately the regime change was "redirected by a third force: a world capitalist political economy dominated by the institutions of First World capital": O'Hearn, 'Export-Led Industrialisation', pps. 31-32. Similarly Jacobsen writes that "state policymakers did not innovate so much as they responded.. The state elite, and the new cadre of economic consultants, *transmitted* economic ideas.. which actually emanated from powerful exogenous actors. Nor was much inventiveness displayed in adapting these models to Irish conditions": Jacobsen, *Chasing Progress*, p. 128.

<sup>24</sup> Cited by McCarthy, *Planning Ireland's Future*, p. 18.

amount of the country's Marshall Aid allocation being directed to industrial development.<sup>25</sup> The 'Stacy May' report was commissioned from this tranche of funds before Ireland's unwillingness to join NATO saw aid flows terminated in 1951.<sup>26</sup> The report, furthermore, which was published in 1952, was rejected by both the department of Agriculture and of Finance. It was only an apparently casual reference to the experience of Puerto Rico that would prove influential.

Just as Ireland has occasionally been portrayed as a testing ground for British colonial policy, Puerto Rico – a US protectorate since 1898 – has been described by some as a laboratory for US initiatives to address the challenges of Cold War decolonisation.<sup>27</sup> 'Operation Bootstrap' was launched in the late 1940s under the tutelage of the Boston consultancy company Arthur D. Little in an attempt to reduce the island's dependence on sugar production. The programme exploited the island's tariff-free trade relations with the US to attract light manufacturing firms through tax holidays and exemptions from excise duties on machinery and raw materials.<sup>28</sup>

One page of the one hundred-page Stacy May report drew attention to the success of the Puerto Rican initiative: real per-capita incomes on the island had risen by 70 per cent over the decade to 1950. Though the report made 'no suggestion that the particular formula adopted by Puerto Rico is relevant to Ireland, since the differences in the two situations are far more impressive than their similarities', the parallels between the two cases cannot have gone unnoticed by its Irish audience.

The report referred to Puerto Rico's 'favoured position' of being inside the US trading market while outside its tax system. Under the terms of the 1938 and 1948 Anglo-Irish trade agreements almost all Irish industrial products were guaranteed duty-free entry to the British market while, in cases where they were dutiable, they generally enjoyed preferential rates equivalent to those accorded to Commonwealth countries.<sup>29</sup> In line with the Ottawa Agreements of 1932 (subsequently much amended) they also had preferential access to varying degrees in Commonwealth markets.<sup>30</sup>

Puerto Rico's favourable tax concessions would appear prominently in the 1956 IDA report on its recent visit to the US, which noted that many US firms had enquired whether any such concessions were available in Ireland.<sup>31</sup>

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<sup>25</sup> Murray, *Facilitating the Future*, pps. 20-21.

<sup>26</sup> Murray, *ibid*, p. 32.

<sup>27</sup> Neveling points out that the outcome of the Puerto Rican initiative was used by the US in a global public relations drive that popularised the export processing zone concept: Neveling, 'Export Processing Zones'.

<sup>28</sup> Neveling, *ibid*.

<sup>29</sup> D. J. Maher, *The Tortuous Path: The Course of Ireland's Entry into the EEC, 1948-73* (Dublin, 1986), p. 4; J. Meenan, J., *The Irish Economy Since 1922* (Liverpool, 1970), pps. 78-79. At the end of the 1950s close to 80 percent of Irish industrial exports to the UK enjoyed tariff or quota preferences over European goods: NAI DIC 315/13 'Draft Memorandum for British', June 1959: cited by Murray, *Facilitating the Future*, p. 10.

<sup>30</sup> Tariff preferences already in existence in 1947 (principally Commonwealth preferences) were excluded from the most-favoured-nation requirements of the General Agreement on Tariffs and Trade: Maher, *Tortuous Path*, p. 112.

<sup>31</sup> Within the UK, Scotland was particularly successful in attracting American investments: P. Dimitratos, I. Liouka, D. Ross and S. Young, 'The multinational enterprise and subsidiary evolution: Scotland since 1945', *Business History*, 51 (2009), 401-425. Puerto Rico may have attracted Irish attention because of its lack of an industrial tradition. For Scotland on the other hand direct job creation was a 'secondary issue' relative to industrial upgrading: Dimitratos et al., *ibid*. Though touched upon by Groutel, the impact on Irish policy



#### 4. Costello, Norton, Lemass and the New FDI Regime

Both Lemass and Morrissey, as we have seen, had agreed in 1948 that American investments were to be encouraged. In 1953, when Lemass was back in office, he delivered speeches in Ottawa and New York encouraging North American enterprises to invest in Ireland. Horgan quotes him as saying to the chief executive of Córas Tráchtála on this trip that ‘I’ve just written a policy for the party’.<sup>32</sup> As Bew and Patterson note however, Lemass would continue to ‘ruminate rather indecisively in public on the possible role of foreign capital in the Irish economy’.<sup>33</sup> Fine Gael and Labour were more fully committed to the emerging new FDI regime and in favour, initially at least – before the political economy requirements of managing the transition intruded – of more comprehensive change.

By 1948 Costello was castigating the Control of Manufactures Acts as ‘outmoded and outdated’.<sup>34</sup> In the Fine Gael 1953 document *Blueprint for Prosperity*, he argued that ‘the sole consequence of the present statutes is that the best type of foreign enterprise is kept out while any slick merchant who wishes to do so can adopt any one of one hundred legal devices of overcoming the statutes. We should make the economy an attractive ground for the employment of capital no matter who subscribes it’.<sup>35</sup>

William Norton – Labour Party leader and Minister for Industry and Commerce in the second inter-party government – deserves much of the credit for driving the FDI initiative forward.<sup>36</sup> He requested the IDA in 1955 to initiate discussions with the Federation of British Manufacturers to induce British firms to establish in Ireland. While tariff-jumping FDI remained acceptable so long as the goods were not already produced in Ireland, export-oriented FDI was now explicitly targeted. Advantages advertised to new investors included both the ‘closely protected home market’ and preferential access to British and Commonwealth markets.<sup>37</sup> During Norton’s tenure in office, the IDA conducted missions to Sweden, Germany and Belgium in 1955 in pursuit of new investments, and to Britain and the Netherlands in 1956.<sup>38</sup>

Fianna Fáil leaders including Lemass attacked the new strategy publicly over those years. *The Statist*, a leading British news weekly, commented on the ‘disquieting inference’ to be drawn from Lemass’s interventions, noting that they were ‘not likely to encourage British or

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formation of the Scottish (and other UK regional) experiences has yet to be systematically explored: Groutel, ‘American Diplomacy’.

<sup>32</sup> Horgan, *Seán Lemass*, p. 156.

<sup>33</sup> Bew and Patterson, *Lemass*, p. 69.

<sup>34</sup> D. McCullagh, *The Reluctant Taoiseach: A Biography of John A. Costello*, (Dublin, 2010), p. 181.

<sup>35</sup> McCarthy, *Planning Ireland’s Future*, p. 24.

<sup>36</sup> Bew and Patterson, *Lemass*, p. 69. The US authorities noted in 1955 that Norton’s commitment ‘is reflected also in his similar approaches to Sweden and Germany’ and that his close association with the enterprise ‘may prevent the project from stagnation, a fate met by many Irish projects which are originally launched with hope and verve’ (cited by Groutel, ‘American Diplomacy’).

<sup>37</sup> *Irish Independent*, December 31, 1955; August 31, 1955; Nov 8, 1955. A complaint was raised at Westminster about invitations being extended to German textile manufacturers “to establish mills in Southern Ireland, so that they might take advantage of duty free entry into the United Kingdom”. The blunt response from the president of the Board of Trade was that when businesses “were established in the preferential areas they got the advantage of those preferences” (*Irish Times*, Nov 4, 1955).

<sup>38</sup> Dáil Éireann - Volume 155 - 07 March, 1956, Committee on Finance. - Vote 50—Industry and Commerce; *Irish Independent*, Feb 29 1956, May 29 1956.

American investors to take up Mr Norton's invitation, especially in view of the fact that Mr Lemass is the most likely man to succeed Mr de Valera'.<sup>39</sup>

This disquiet was shared by the US authorities. Groutel has recently unearthed from the US archives the following despatch to Washington dated January 1956:

Although obviously speaking partly for political purposes, these comments... are indicative of the fact this party does not fully share the present Coalition Government's policy of actively seeking foreign investment in Ireland. As far as can be ascertained from its rather nebulous recent economic proposals, its basic attitude is unchanged. As it is not at all unlikely that Fianna Fáil may return to power in the future all of this sounds a note of caution that the present favorable attitude toward foreign investment in Ireland may be altered if a change of Government occurs.<sup>40</sup>

At least one US investment project appears to have been jettisoned at this time when the investor was informed that a change of government could lead to a less favourable attitude towards FDI.<sup>41</sup>

Finally, in October 1956, after almost ten years of debate within the bureaucracy, Costello announced the introduction of both export profits tax relief and a new nationwide industrial grants scheme. His speech – which is one of the most important economic policy speeches in the history of the state – was carefully crafted to avoid raising the hackles either of Fianna Fáil or of protectionist industry.

Draft notes for the speech, thought to have been written by Alexis FitzGerald, contain the following revealing passage:

I would visualise that many *English* manufacturing concerns would find it worth their while to open businesses, i.e. trading companies in Ireland, and so fix their prices that their real profits or exports were made here to benefit from the favourable rate (*italics added*).<sup>42</sup>

The speech as delivered made no mention of potential British investments. Fianna Fáil was free to assume, if desired, that the investments would be American. The need to placate domestic industry presented more complicated challenges. There was no explicit linkage between export profits tax relief and inward FDI in the initiative as announced – the new schemes were to be available to both domestic and foreign firms – though, as Garret FitzGerald (1959) would recognise, the tax relief was likely to be much more significant for foreign investors.<sup>43</sup>

Crucially, the Control of Manufactures Acts, which imposed restrictions on foreign ownership, were to be retained.<sup>44</sup> While the Department of the Taoiseach, the Department of Finance and the Governor of the Central Bank all favoured repeal, retention of the Acts was

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<sup>39</sup> Bew and Patterson, *Lemass*, p. 89.

<sup>40</sup> Groutel, 'American Diplomacy'.

<sup>41</sup> Groutel, *ibid.*

<sup>42</sup> UCD, Costello Papers, P190/713(8), cited in Barry, 'Export Profits Tax Relief'.

<sup>43</sup> Groutel shows that the US authorities were advising the Irish in 1955 that inducements such as tax remission and import duty exemptions might be necessary to attract US firms to Ireland: Groutel, 'American Diplomacy'.

<sup>44</sup> Though amended somewhat in 1958 the OEEC report of that year noted that 'the conditions governing foreign investment in Ireland are still more restrictive than would seem appropriate in the light of Ireland's overriding need for new investment and enterprise': NAI, DT, S16446.

necessary to avoid triggering the hostility of protectionist industry. The Department of Industry and Commerce warned that repeal ‘would permit of the unfettered investment of outside capital in unsuitable as well as suitable cases’. In the end, Norton – adopting the position of his department – won the debate within the government, arguing that repeal would be ‘a breach of faith towards those who have set up factories on the basis of the existence of the Acts’.<sup>45</sup>

The new industrial grants scheme also presented obstacles. Hence a convention was adopted ‘which had always been accepted by the grant-giving bodies although it is not expressed in any of the legislation. This was that grants were only to be given to new firms which would not compete in the home market with existing firms’.<sup>46</sup>

A final problem was that the new tax relief appeared to be in breach of an OEEC agreement reached in January 1955 that member countries would by the end of the year discontinue artificial aids to exporters, *including the remission of direct taxes*. This was a source of worry for both Whitaker and the Minister for External Affairs Liam Cosgrave. The position adopted by government was that economic stability constituted one of the ‘reasons of national importance’ by which the agreement could be waived. In the event, the OEEC reacted with approval to the signal of a shift towards outward-orientation.

The Department of Industry and Commerce, in arguing for retention of the CMA, admitted that the provision of the Acts might look formidable to an outsider and ‘might tend to frighten off e.g. American groups contemplating establishment of a unit in Europe’. It advocated that it be brought home to potential foreign investors that the Acts are not operated in a restrictive manner. William Taft, the American Ambassador to Ireland, was sceptical, since ‘such a law remains on the books’.<sup>47</sup>

An example of the government’s struggle to reassure outside investors is provided by a contemporary memorandum from the Department of External Affairs to the US authorities. It stated that:

The Minister for Industry and Commerce has power.. to authorise the establishment of industries under foreign control where he is satisfied that this course is not harmful to existing Irish industry. The Minister’s power in this regard has been exercised liberally. In the 20 years since the Acts were passed some 240 industries controlled externally have been set up. No sound proposal for the establishment of an industry new to this country has been turned down merely because control would rest in the hands of non-nationals.<sup>48</sup>

With Fianna Fáil afforded little opportunity for controversy, the logjam preventing the introduction of the new policy was breached. Lemass now attacked the government from the opposite flank. Having criticised it in June 1956 for overemphasising the role that foreign

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<sup>45</sup> Cited by McCullagh, *Reluctant Taoiseach*, p. 293.

<sup>46</sup> C. Brock, ‘Public Policy and Private Industrial Investment’, in J. A. Bristow and A. A. Tait (eds.) *Economic Policy in Ireland*, (Dublin, 1968).

<sup>47</sup> Cited by Groutel, ‘American Diplomacy’. That the US side did not understand the political economy requirements of how the transition was managed is evident also from the ambassador’s complaint that “with Mr Norton’s scheme we would be promoting the Irish tariff economy rather than liberalization of trade”: Groutel, ‘American Diplomacy’, p. 11.

<sup>48</sup> NAI, DT, S15231B, 28 July 1955.

capital could play, he now argued that the concessions were insufficiently generous.<sup>49</sup> Once it had been shepherded through by the inter-party government, Fianna Fáil threw itself behind the new policy with gusto. In 1958 it expanded the tax remission from 50 to 100 per cent and the tax exemption from five years to ten.

By the end of 1958 however it was clear that the new FDI regime had achieved little success in attracting American firms to the country.<sup>50</sup>

## 5. The Shannon Initiative

The role of the Shannon initiative of 1958 in the Irish transition has received little attention. We believe it can be seen as a component of Lemass's response to the policy innovations of the inter-party governments.

Lemass had a well-known fascination with air travel. After his retirement, he told a journalist that the creation of Aer Lingus was the decision for which he would most like to be remembered.<sup>51</sup> He had been infuriated by the decision of the first inter-party government to sell off the airplanes that his government had purchased in order to initiate transatlantic operations. Horgan describes Shannon as one of the enterprises closest to Lemass's heart: 'His vision of Ireland linked, through Shannon, to the United States and the rest of the world was a powerful and compelling one and prompted some of his most imaginative decisions'.<sup>52</sup>

The first mention of what would emerge in the late 1950s as the Shannon initiative was in a 1953 Industry and Commerce minute. Following a discussion of the possibility of developing manufacturing industry in the area of the Customs Free Airport, the embassy in London was requested to seek details from the Panamanian authorities of a similar recent initiative.<sup>53</sup> In 1955 US Commerce Department officials would also propose that consideration be given to 'the establishment of a free port or bonded zone where manufacturing, assembling and processing operations could be carried out without payment of import duties on materials or parts and with a minimum of customs formalities'.<sup>54</sup>

By the late 1950s, with the development of newer long-range transatlantic aircraft, the future of Shannon airport was in question. An export processing zone would secure the future of the airport but could also help to resolve the problem that US companies were particularly interested in accessing the Common Market, which was not within Ireland's gift.<sup>55</sup>

Much of the running on Shannon was made by Brendan O'Regan. A civil servant would later comment on 'the extraordinary level of support [he] was able to command in government

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<sup>49</sup> *Irish Press*, 15 October 1956, cited by Barry, 'Export Profits Tax Relief'.

<sup>50</sup> A 1960 meeting between An Foras Tionscal (the industrial grant awarding body) and the Economic Development Branch of the Department of Finance reported that "the campaign to attract American industrialists had not succeeded so far": NAI DF 2001/3/121. An IDA publication from 1971, *Principal New Industries with Foreign Participation*, lists only one US firm among the 20 that had been established over the period 1955-1958.

<sup>51</sup> Horgan, *Seán Lemass*, p. 89.

<sup>52</sup> Horgan, *ibid.*, p. 155.

<sup>53</sup> NAI, DFA/E 66 II, 'Industrial Development in Ireland'.

<sup>54</sup> Groutel, 'American Diplomacy'.

<sup>55</sup> *Irish Times* (4 December 1959; 18 August 1962). The edition of 14 August 1959, referring to the volume of US investment in the Common Market, comments that "Ireland's isolation is pinpointed, and her prospects of attracting foreign capital take another blow".

circles because effectively he had his mandate from Sean Lemass'.<sup>56</sup> Having received a contract from Lemass to open a restaurant at the Foynes terminal in 1943, he went on to establish the world's first duty-free shop at the airport in 1947.

O'Regan convinced the Department of Industry and Commerce to engage UK consultants Urwick Orr and Partners, who had done work for his Sales and Catering division, to explore the possibilities for sustainable development at the airport.<sup>57</sup> Suggesting – rather prematurely – that national programmes had been ineffective, the Urwick Orr report of May 1957 recommended developing the airport as a freight trans-shipment centre, promoting industrial projects as an integral part of air freight development, and establishing an independent 'Shannon Development Authority' to run the project.<sup>58</sup>

While debate continued over whether or not the project should be run from within the department, O'Regan set up a 'Shannon Free Airport Development Authority' as a unit of his Sales and Catering division. The body at this stage had no formal legal existence. Lemass duly submitted a memorandum to Government proposing to reconstitute the new body as a limited liability company.<sup>59</sup>

The Customs Free Airport (Amendment) Act of 1958 established the export processing zone at Shannon while the Finance Act of the time introduced a 25-year exemption for qualifying companies (at a time when the national tax exemption was for 10 years). The OEEC once again reacted with equanimity, its 1958 report on Ireland simply noting the development and commenting that further export expansion was hoped for.

The embryonic authority became the Shannon Free Airport Development Company (SFADCo) in January 1959. O'Regan initially had the Panamanian model of a combined seaport and airport in mind, and one of SFADCo's two new appointments was a Spanish speaker who was tasked with translating the laws relating to the Colón Free Zone.<sup>60</sup> By the time of the authority's second report in 1959 however, air freight-able manufacturing had become the main focus.<sup>61</sup>

SFADCo and Shannon, on the one hand, and the IDA and export profits tax relief on the other, were clearly separate initiatives, both temporally and politically, though the former built on the latter. Lemass's 1958 memorandum to government had downplayed the potential for difficulties between the two agencies, suggesting that there was no overlapping of functions.<sup>62</sup> Then head of the IDA, J.P. Beddy, by contrast, was concerned about the possibility of conflict from the start.<sup>63</sup> Relations between the two agencies would in fact prove problematic for decades to come.

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<sup>56</sup> B. Share, *Shannon Departures: a Study in Regional Initiatives* (Dublin, 1992), p. 59.

<sup>57</sup> B. Callanan, *Agencies in Regional Development: a Case Study of Shannon Free Airport Development Company, 1957-85* (Ph.D. thesis, University of Limerick, 1995), pps. 68-70.

<sup>58</sup> Callanan, *ibid*, pps. 68-78.

<sup>59</sup> Callanan, *ibid*, pps. 68-78.

<sup>60</sup> The *Irish Times* of 18 February and 5 Mar 1958 noted that the Shannon model was based on the success of the Panamanian 'Free Zone'. O'Regan had studied the Hamburg Free Zone and, in March 1958, following a visit to New York to launch a promotional brochure entitled 'Your Base in Europe', had gone on to inspect the Panamanian free trade zone at Colón as well as similar facilities in Puerto Rico.

<sup>61</sup> Callanan, *ibid*, p. 74.

<sup>62</sup> Callanan, *ibid*, pps. 75-76.

<sup>63</sup> Memorandum, 18 Nov. 1958: NAI DIC IND/IND/4/159).

Pádraic White, Managing Director of the IDA from 1981 to 1990, characterised the competition between the two agencies as ‘a complete disaster and a complete waste of money’.<sup>64</sup> Relations would become particularly fraught in the 1980s when SFADCo opened an office in New York and sent personnel to Germany and Japan. Then Minister for Industry and Commerce Desmond O’Malley reported on an episode in the late 1980s where ‘I came out of a meeting with a certain company having talked about Ireland and there sitting at the door waiting to go in was a Shannon representative’.<sup>65</sup> Eventually, in 1990, O’Malley granted all overseas responsibility for industrial development to the IDA and returned responsibility for overseas industry already located in the Mid-West to that body.<sup>66</sup>

One of the earliest manifestations of the turf war was the commissioning by the newly established SFADCo of a report on Ireland’s attractiveness to US firms. The confidential report was produced by Business International (BI), a New York-based company with a network of overseas correspondents that assisted US companies in their international investment, licensing and trading decisions.<sup>67</sup>

Interestingly, given its origins, the report noted that separate promotional efforts ‘might be a source of confusion to the American investor and a wasteful duplication of efforts for the Irish’. The consultants appear to have confined their attention to Shannon and to have been largely unaware of the activities and plans of the IDA, of past and ongoing debates within the bureaucracy, and of domestic political considerations. The government response was that the conclusions by-and-large ‘contained nothing of value in the circumstances obtaining in this country’.

The report described the restrictions represented by the Control of Manufactures Acts as ‘most detrimental’ and ‘difficult to understand in light of Ireland’s drive for US investments’. The acts, it argued, represented a form of continued protectionism while efficiency required further competition, including from newly-establishing foreign companies. These issues, as seen above, had already been extensively discussed in Ireland. Competition would indeed improve efficiency, but the domestic firms to gain would be of a future post-protectionist generation. The political economy requirement however was to defuse the opposition of existing firms, which was why the Acts had been retained.

Business International – though believing it to be ‘a matter of some delicacy’ – recommended that an Irish promotional campaign should highlight Ireland’s access to UK and Commonwealth markets. This was already a key element in the IDA’s campaign.<sup>68</sup>

The report also drew attention to the Puerto Rican model, of which the IDA was by now well aware. Puerto Rico had built up ‘a compelling image of a virile nation whose self-respect would not permit it to solve its basic economic problems by demanding direct aid from

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<sup>64</sup> P. Donnelly, *Path Dependence, Agent-Network Theory and Ireland’s Industrial Development Authority*, Ph.D. thesis, University of Massachusetts at Amherst, USA (2007), p. 236.

<sup>65</sup> Share, *Shannon Departures*, pps. 75-76.

<sup>66</sup> Share, *ibid*, p. 176.

<sup>67</sup> The report and the ensuing discussions detailed below are contained in NAI DT S 2850G/94. We are grateful to Mary E. Daly for alerting us to this document.

<sup>68</sup> The IDA in 1955 had produced a brochure for the American market entitled “Window into Ireland”. The brochure advertised the fact that most goods of Irish origin were exempt from British tariffs (exceptions were listed in an appendix), and that Irish goods received preferential treatment in a number of Commonwealth countries and territories including Canada, Ceylon, Australia and New Zealand (*Irish Times*, Aug 27, 1955).

United State taxpayers', while there was a need to correct 'erroneous impressions of Ireland and the Irish', to which end the consultants recommended 'a campaign playing up Ireland's close relationship with Protestant countries.. and the fact that its Government and people are very much in step with modern industrial and commercial thought and practice'.<sup>69</sup>

A major theme of the BI report was the need for more active promotion of the new FDI regime. By 1958 however the IDA already had a branch office in New York and brochures and booklets had been prepared and distributed in the US outlining the attractions of Ireland as a location for industry. IDA advertisements appeared regularly in US trade journals, official publications and in the American press. Long before *Time Magazine* in July 1963 featured Seán Lemass on the front cover under the heading 'New Spirit in the Ould Sod', the *Wall Street Journal* had covered the story (in November 1960) under the title 'Why Irish Eyes are Smiling'.

Nor was the IDA campaign confined to the US. By 1960 it had a permanent representative in Bonn.<sup>70</sup> Its activities were written up in a report in *Der Spiegel* entitled 'Foreign Subsidiaries: The Green Wave' on 13 April 1960. Among the attractions Ireland offered to German firms, *Der Spiegel* noted, were the low cost and plentiful supply of labour, a good energy supply and transportation infrastructure, industrial grants and export profits tax relief, and customs-free access to the UK and Commonwealth markets.<sup>71</sup> The promotional activities of the IDA would expand considerably over the coming years of course, across both Europe and the US – a development that would surely have occurred independently of the Business International report.

There were two items of value in the report however. The first was its explanation of the intricacies of international tax laws and how arrangements might be made with other countries to maximise the attractions of the new Irish tax regime. Among its recommendations was that Ireland should seek a particular 'tax sparing' concession from the US government. As this was available only to developing countries however, it conflicted with Ireland's need to be considered an advanced country if full rather than merely associate membership of the EEC – to which Ireland applied in 1961 – was to be achieved.<sup>72</sup>

The other item of value in the BI report pertained specifically to Shannon. While noting that "much will have to be done to overcome the resistance of potential investors worried by the fact that Ireland is not a party to either the EEC or EFTA", it made the point that Shannon as a manufacturing base offered the advantage of being linked by air to *world* markets. It also noted its potential "as a site for the production of components and finished goods to be shipped back to the US to enable US firms to lower their costs".<sup>73</sup>

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<sup>69</sup> Groutel provides evidence from the US archives suggesting that the image of Irish people as showing a preference for 'rest, relaxation, sport, or some other non-remunerative pursuit rather than for a higher standard of living' was widespread in official US circles: Groutel, 'American Diplomacy'.

<sup>70</sup> *Irish Times*, Sep 27, 1960.

<sup>71</sup> We are grateful to Alison Hearne of Carlow Institute of Technology for drawing our attention to this article and supplying a translation.

<sup>72</sup> M. FitzGerald, *Protectionism to Liberalisation: Ireland and the EEC, 1957-1966*, (Aldershot: 2000), p. 121.

<sup>73</sup> It would later be reported of the General Electric subsidiary, 'EI', that it was producing components at Shannon for 30c that would have cost it \$1.25 to produce in the US (*Irish Times*, 13 February 1963).

## 6. Outcomes of the IDA and Shannon Initiatives

There was substantial contemporary interest in the progress of the IDA and Shannon initiatives. The studies that were conducted differed in their methodologies however, which makes them difficult to compare. Most were surveys as opposed to censuses of the population of new firms and while some focused on plants or firms others focused on projects, of which there could be many per firm and even per plant. Accordingly we report here on a database of our own which we have compiled from contemporary reports of An Foras Tionscal, SFADCo and the IDA, supplemented by newspaper accounts of ongoing developments.

Our database contains 359 new foreign-owned manufacturing plants that were in receipt of grants at any time between 1955 and 1972.<sup>74</sup> Of these, 73 had closed by 1972 and employment and closure details are unavailable for a further 30. We include grants under three schemes: (i) the ‘undeveloped area’ scheme introduced in 1952, which was not initially designed as a broader industrial development tool; (ii) the ‘new industry’ scheme that dated from 1956; and (iii) the ‘SFADCo’ scheme. SFADCo grants were initially paid to plants establishing at Shannon but from 1968 were extended to the wider Mid-West area.<sup>75</sup>

From the beginning, the share of SFADCo firms coming from the US was higher than in the non-SFADCo cases. By 1972, US firms comprised around two-thirds of the SFADCo and Shannon cohorts, a substantially higher share than prevailed in the rest of the country (Table 1).

**Table 1: Numbers of New Foreign Plants Remaining Alive in 1972 (by Grant Type)**

Ownership	SFADCo		‘New Industry’	‘Undeveloped Areas’	Total
		(of which) Shannon			
US	19	13	30	20	69
Other Foreign	12	6	92	83	187
Total Foreign	31	19	122	103	256

Shannon, and the SFADCo area generally, also proved to be relatively more attractive to large employers. Thirty two percent of Shannon plants and 25 percent of SFADCo plants had 250 employees or more in 1972, compared to 13 percent of plants with ‘new industry’ grants and only 6 percent of those with ‘undeveloped area’ grants.

The first major anchor tenant at Shannon was the Pennsylvania firm Standard Pressed Steel, which opened in 1960 and air-freighted all of its production abroad, primarily to the US.<sup>76</sup> It employed almost 400 workers in 1961.<sup>77</sup> Among the largest of the ‘new foreign industry’ employers across the entire country in 1972 was the US fashion-garment producer Lana-Knit,

<sup>74</sup> Other sources occasionally suffer from double-counting. Our database, furthermore, excludes operations related to mining and farming, establishments that – while owned by manufacturing firms – were not manufacturing units themselves, and new projects undertaken by incumbent firms. Services firms were also eligible for SFADCo grants and there were special tax arrangements to facilitate warehousing and entrepôt trade at the airport: L. Donaldson, *Development Planning in Ireland*, (New York, 1965). These operations are also excluded.

<sup>75</sup> Thus new grant-aided plants establishing in Ennis or Thurles prior to 1968 are classified within the ‘undeveloped areas’ or ‘new industry’ grant categories respectively, whereas ones established in these areas post-1968 are classified under SFADCo.

<sup>76</sup> Share, *Shannon Departures*, p. 61.

<sup>77</sup> *Irish Times*; Dec 1, 1961



which had been at Shannon since 1960.<sup>78</sup> Another was the General Electric subsidiary known as ‘EI’, which had been at Shannon since 1962.<sup>79</sup> It employed 1200 workers by 1966.<sup>80</sup>

Table 2 shows the employment levels in 1972 for the 256 new foreign-owned plants in our database that survived until then and for which employment data are available. In this respect also, US firms comprised a significantly higher proportion of the SFADCo cohort, and a far higher proportion of the Shannon cohort, than was the case elsewhere in the country.

**Table 2: Total Employment in New Foreign Manufacturing Plants in 1972 (by Nationality and Grant Type)**

Ownership	SFADCo		‘New Industry’	‘Undeveloped Areas’	Total
		(of which) Shannon			
US	3209	2678	6814	1549	11,572
Other Foreign	2271	997	10,439	7278	19,988
<i>Total Foreign</i>	5480	3675	17,253	8827	31,560

Shannon achieved rapid success. By 1967 it accounted for 30 percent of Ireland’s manufactured exports of £110 million, up from 10 percent of the much smaller figure of £50 million in 1963. By 1973 industrialisation had spread and Shannon’s share was back down to around 10 percent of the total, which had by now grown to £430 million.<sup>81</sup>

Shannon’s portfolio of export destinations differed dramatically from that of the rest of the economy, as seen in Table 3. Lemass’s desire to attract US firms even before EEC membership had been attained had paid dividends.

**Table 3: Share of Manufactured Exports (from Shannon and Ireland) by Destination, 1973**

	UK	Rest of EEC	North America	Rest of World
Shannon airport	16	20	44	20
Ireland (including Shannon)	52	18	17	13

Sources: SFADCo Annual Report 1973-74; Córas Tráchtála Annual Report 1974

## Concluding Comments

By creating an alternative source of job creation, the new export-oriented FDI regime instituted in the 1950s facilitated the later Whitaker and Lemass-led dismantling of protectionist trade barriers.

The present paper has focused on where the ideas for the new FDI regime came from, how they worked their way to the top of the policy agenda, and how the political obstacles facing their introduction were surmounted. One facilitating factor was that the US had overtaken the UK as the major global source of FDI in the post-war world. Fianna Fáil was particularly favourably disposed towards US investment. Indeed the Shannon initiative was particularly appealing to US firms, who would come to predominate in the non-Shannon region only after EEC membership had been attained. US interests played a role in alerting Ireland to newly-

<sup>78</sup> Share, *Shannon Departures*, p. 187.

<sup>79</sup> Horgan reports that ‘Lemass was so unhappy about the shamrockery implicit in the name’ – Emerald Isle – that he succeeded in having it referred to only as the ‘EI Company’: Horgan, *Seán Lemass*, p. 249.

<sup>80</sup> *Irish Independent*, August 19, 1966.

<sup>81</sup> *SFADCo Annual Report 1973-74*: 15.

emerging possibilities and opportunities but domestic ‘ownership’ and management of the transition was critical to its widespread acceptance.

The major financial incentives that would prove attractive to foreign firms were introduced in 1956. These included export profits tax relief and a nationwide rolling-out of an industrial grants scheme that had heretofore been confined to ‘undeveloped areas’. Ideas for the export profits tax relief initiative had been under discussion within the Irish system since the dollar shortage of the immediate post-war period. By the time it was introduced it was understood that it could make a significant contribution to Ireland’s ability to attract export-oriented foreign firms.

The main political difficulty facing the inter-party government in implementing its 1956 initiative was how to avoid triggering the opposition of protectionist-era industry. The financial incentives introduced were remarkably well designed to achieve this goal. The new tax relief applied only to profits deriving from new exports, while the industrial grants were by convention allocated only to ‘new firms which would not compete in the home market with existing firms’. The final protection afforded was the retention of the Control of Manufactures Acts. Though this made the task of the FDI promotion agencies more difficult, it hugely facilitated political acceptance of the new regime. The potential objections of the OEEC were overcome when the new policy was accepted as evidence of movement towards an outward reorientation of the economy.

Lemass was clearly wrong-footed by the inter-party initiative. His public criticism of what he had himself announced years earlier as a ‘new policy for the party’ showed evidence of what John Horgan, a favourably-disposed biographer, has characterised as ‘tortured logic’.<sup>82</sup> Lemass’s public pronouncements may have had a dampening effect on the initial impact of the regime shift.

It has been well-documented how Irish policymakers of all parties inched each other towards the new economic strategies of the 1950s. It seems natural, in this light, to view Shannon as Lemass’s response to the inter-party initiative. His support for the establishment of SFADCo as a separate organisation from the IDA created problems that would manifest themselves for decades to come. Shannon made its mark very rapidly however and the initiative succeeded in attracting a strong coterie of US firms long before Ireland joined the EEC.

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<sup>82</sup> Horgan, *Seán Lemass*, p. 167.